The financial crisis that obliterated the lines between banks and securities firms may be about to do the same to divisions between federal regulators. The demise this week of independent securities firms may accelerate a change Federal Reserve Chairman Ben S. Bernanke and Treasury Secretary Henry...

The financial crisis that obliterated the lines between banks and securities firms may be about to do the same to divisions between federal regulators.

The demise this week of independent securities firms may accelerate a change Federal Reserve Chairman Ben S. Bernanke and Treasury Secretary Henry Paulson have called for: a single supervisor to ensure market stability. It may also avert a battle over which regulator might gain or lose power because the Securities and Exchange Commission's role is already diminished.

``We have no more investment banks, so we don't have to regulate them,'' House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, told reporters yesterday. ``But we do have other entities that need regulation. There's clearly far too much risk taking going on, far too much leveraging.''

Still to be decided is whether the Fed, another existing regulator, or a new agency will be required. Bernanke proposed a ``macroprudential supervisor'' to oversee risk in the financial system in an Aug. 22 speech. He didn't identify which body should do the job.

Frank plans to consider regulatory changes next year and has said he favors new powers for the Fed. He holds a hearing with Paulson and Bernanke on the financial crisis tomorrow.

`Crisis at Hand'

Bernanke said in testimony to a hearing at the Senate Banking Committee today that while regulatory flaws ``must be addressed,'' the priority for now is to end the financial crisis, and a broader plan would be ``difficult to compress into a short legislative time frame.'' Paulson and SEC Chairman Christopher Cox are also scheduled to appear before the panel today.

Bernanke is accruing authority after the conversion of Goldman Sachs Group Inc. and Morgan Stanley, the last large independent securities companies, into commercial banks this week. This comes at the expense of the SEC, which at the start of the year oversaw five investment banks that are now bankrupt, sold or transformed.

The Fed started accumulating more power when it intervened to rescue Bear Stearns Cos. in March. Fed and SEC officials then signed an agreement in July giving the central bank shared oversight of securities firms' leverage and capital.

Even as his role expands, Bernanke has indicated no desire for the Fed to become the financial industry's universal regulator.

``The adoption of a regulatory and supervisory approach with a heavier macroprudential focus has a strong rationale, but we should be careful about over-promising,'' Bernanke said at a gathering of central bankers from 40 countries last month in Jackson Hole, Wyoming.

Political Threat

Making the Fed a broader financial regulator may threaten its political independence, risking attempted influence on interest-rate decisions, according to some central bankers and politicians.

At the Jackson Hole gathering, European Central Bank governing council member Mario Draghi, who chairs an international group of regulators and finance officials, said that giving central banks responsibility for ensuring stable markets would risk impeding their ability to control inflation.

During times of extraordinary market turmoil, ``maintaining price stability could be the best contribution that monetary policy could give to the return of financial stability,'' Draghi said at the forum.

At the very least, heightened scrutiny by lawmakers would follow.

``If we grant additional powers'' to the Fed, ``I certainly hope that that will provide more reliable information to the Congress,'' Representative Brad Miller, a North Carolina Democrat, said ahead of Bernanke's semiannual economic testimony to Congress in July.

Default Regulator

The Fed is becoming a bigger regulator now because ``it's the entity that's there,'' said **Representative John Campbell**
, a California Republican who is a member of the Financial Services Committee. ``We'll have considerable discussion next year about whether that's the appropriate way to build it when we actually have time to think about it.''

Setting up an authority other than the Fed to oversee financial regulation may take longer than lawmakers care to wait.

``The Fed should be at the heart of this,'' said James Leach, a Republican former chairman of the panel now headed by Frank. He cited the agency's deep pockets, pool of economic talent and ability to move quickly under existing statutes. Leach is now at Harvard University's Kennedy School of Government.

The SEC's authority has declined, making it less likely to win new powers. The Federal Deposit Insurance Corp. and Office of the Comptroller of the Currency oversee commercial banks and have little experience with complex markets such as for derivatives, where the Fed has imparted regulatory scrutiny.

SEC's Focus

At the SEC, the staff composition ``has been too skewed toward lawyers for too long,'' said Chester Spatt, a former SEC chief economist who is now a finance professor at Carnegie Mellon University in Pittsburgh. That's ``arguably hobbled its ability to deal with important market issues.''

Big banks may already be comfortable with the Fed in charge.

``Bank holding companies have been holding up, weathering a pretty fierce storm'' as other parts of the financial system failed, said Wayne Abernathy, the American Bankers Association's executive vice president for regulatory policy and a former staff director at the Senate Banking Committee.